

ORIGINAL

MEMORANDUM



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TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: May 24, 2010

RE: STAFF REPORT FOR LAZY C WATER SERVICE'S APPLICATION FOR A
PERMANENT RATE INCREASE. (DOCKET NO. W-01536A-09-0410)

Attached is the Staff Report for Lazy C Water Service's application for a permanent rate increase. Staff recommends approval of its recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before June 4, 2010.

SMO:All:kdh

Originator: Alexander Ibhide Igwe, CPA

Arizona Corporation Commission

DOCKETED

MAY 24 2010

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AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Lazy C Water Company.
Docket No. W-01536A-09-0410

Mr. Robert Canfield
Lazy C Water Service
Post Office Box 1
Tucson, Arizona 85745

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**LAZY C WATER SERVICE
DOCKET NO. W-01536A-09-0410**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

MAY 24, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Lazy C Water Service, Docket No. W-01536A-09-0410 was the responsibility of the Staff members listed below. Alexander Ihade Igwe was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Carmen Madrid was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.



Alexander Ihade Igwe, CPA
Executive Consultant III



Katrin Stukov
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
LAZY C WATER SERVICE
DOCKET NO. W-01536A-09-0410**

Lazy C Water Service ("Lazy C" or "Company") is located six miles northwest of downtown Tucson, Arizona. It serves approximately 132 residential customers based on rates and charges approved by the Arizona Corporation Commission ("Commission") in Decision No. 67161, dated August 10, 2004.

On August 28, 2009, Lazy C filed an application for a permanent rate increase. The Company seeks Commission approval to increase its revenue requirement from \$102,674 to \$133,476, an increase of \$30,802 or 30 percent. The Company's proposal results in an operating income of \$3,729 or a rate of return of 1.18 percent on its reported Original Cost Rate Base ("OCRB") of \$316,159. Because the Company did not provide a Reconstructed Cost Net Depreciation ("RCND") study in this proceeding, Staff assumes its OCRB to be equal its Fair Value Rate Base ("FVRB"). Its proposed rates will increase the monthly bill of a typical residential customer on a 3/4 x 5/8-inch meter, with a median usage of 8,333 gallons, by \$14.02 or 30 percent, from \$46.78 to \$60.80.

Staff recommends a rate increase of \$11,678, an 11 percent increase in revenue requirement, from \$102,674 to \$114,352. Staff's recommended revenue requirement yields an operating income of \$14,863 or a 20.70 percent rate of return on Staff adjusted OCRB of \$71,814. Staff's recommended operating income was derived based on a 13 percent operating margin, due to the Company's small rate base. Staff's recommendation provides the Company with adequate cash flow to cover its operations and meet contingencies. Staff's recommended rates increase the monthly bill of a typical residential customer, on a 3/4 x 5/8-inch meter, by \$0.90 or 1.9 percent, from \$46.78 to \$47.68.

Staff recommends approval of its recommended rates and charges depicted on Schedule AII-4.

Staff recommends that the Company be authorized to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).

Staff recommends that the Company adopt the depreciation rates set forth on Table B of Engineering Report, no later than 30 days from the effective date of Commission order in this proceeding.

Staff recommends that the Company file with the Commission a schedule of its approved rates and charges no later than 30-days from the date of the decision in this proceeding.

Staff recommends that the Company monitor and assure that its well pump meters are working properly, and if it is determined that they are not, Company will repair and replace such well pump meters, within 30 days.

Staff recommends that the Company continue to closely monitor its water system and take actions to ensure that its water loss is less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall develop a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be filed under this docket.

Staff recommends that any increase in permanent rates and charges in this matter shall become effective on the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from ADEQ indicating that there are no compliance deficiencies and the Company's water system is delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

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FACT SHEET

Company:

Current Rates: Decision No. 67161, dated August 10, 2004
Type of Ownership: C Corporation

Location: The Company is located within the Tucson Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: August 28, 2009
Current test year ended: December 31, 2008
Prior test year ended: December 31, 2002

Rates:

	<u>Current Rates</u>	<u>Company Proposed</u>	<u>Staff Recommended</u>
Monthly Minimum Charge: (For 5/8 x 3/4-Inch Meter)	\$19.00	\$24.70	\$19.00
Commodity Rates:			
0-3,000-gallons	\$2.45	\$3.18	
3,001-10,000-gallon	\$3.83	\$4.98	
Over 10,000-gallons	\$5.20	\$6.76	
0-3,000-gallons			\$2.45
3,001- 9,000-gallons			\$4.00
Over 9,000-gallons			\$5.50
Typical Residential Bill: (Based on a median usage of 8,333-gallons)	\$46.78	\$60.80	\$47.83

Customers:

Average number of customers in the current test year (12/31/09): 132

Current test year customers by meter size:

5/8 X 3/4-inch	106
3/4-inch	0
1-inch	25
1 1/2-inch	1
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: N/A

Customer notifications for rate application filed: August 28, 2009.

Number of customer complaints and/or opinions concerning rate application filed: 1

Percentage of complaints to customer base: 0.0075 percent.

SUMMARY OF FILING

On August 28, 2009, Lazy C Water Service, ("Lazy C" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On March 9, 2010, the Commission Staff ("Staff") notified that Company that its application met sufficiency requirements of the Arizona Administrative Code, Section R14-2-103. Lazy C is classified as a Class D water utility based on its revenues.

Lazy C reports test year total operating revenue of \$102,674, and an operating loss of \$27,073. The Company seeks Commission approval for a rate increase of \$30,802 or 30.00 percent over test year operating revenues, for a total of \$133,476. The Company's proposed rate increase will result in an operating income of \$3,729 or a 1.18 percent rate of return on its reported Original Cost Rate Base ("OCRB") of \$316,159.

As shown on schedule AII-3, page 1 of 5, Staff has adopted the Company's reported test year operating revenues. However, Staff finds that the Company's test year operating income was \$5,816, due to Staff's adjustments to test year operating expenses. Staff recommends revenue requirement of \$114,352, an increase of \$11,678 or 11 percent over test year revenues. Staff's recommended revenue requirement yields an operating income of \$14,863 or a 20.70 percent rate of return on Staff adjusted OCRB of \$71,814. Staff's recommended operating income was derived based on a 13.00 percent operating margin, for the reasons discussed in the revenue requirement section of this report. As shown on Schedule AII-5, Staff's recommended rates would increase the monthly bill of a typical residential customer on a 5/8 x 3/4 inch meter, with a median usage of 8,333-gallons, by \$0.90 or 1.9 percent, from \$46.78 to \$47.68.

BACKGROUND

Lazy C is a C Corporation, certificated by the Commission to provide water service in Arizona, pursuant to Decision No. 30454, dated August 16, 1957. The original Certificate of Convenience and Necessity ("CC&N") was issued to Mrs. Joseph Canfield dba Lazy C Water Service. In Decision No. 56606, dated August 24, 1989, the Commission authorized the current owner, Box One, Inc., to acquire Lazy C. The Company serves the Lazy C Ranch Estates located approximately six miles northwest of downtown Tucson. It serves approximately 132 residential customers based on rates and charges that were approved in Decision No. 67161, dated August 10, 2004.

The Company states that its requested rate increase is necessary to mitigate rising cost of service and the negative impact of lack of a rate increase over the last six years.

PUBLIC NOTICE

The Company has filed an *Affidavit of Mailing* indicating that its customers of record were noticed of this application on August 26, 2009.

CONSUMER SERVICES

Staff reviewed the Commission's records and found zero complaints in 2007 and 2008, three complaints regarding quality of service and one opinion in opposition to a rate increase in 2009; and one complaint regarding quality of service in 2010. All complaints have been fully resolved and closed.

Staff has determined that the Company's parent, Box One, Inc., is in good standing with the Corporations Division of the Commission.

ENGINEERING ANALYSIS

Staff Engineer, Katrin Stukov conducted a field inspection of the Company's plant facilities on February 17, 2010, in the accompaniment of the Company's representative, Robert J. Canfield II. A complete description of the Company's water system, Staff's technical findings and recommendations are contained in Engineering Report, attached herewith as Attachment A.

The Company's water system is located at four separate sites. It is comprised of two wells, three storage tanks, four pressure tanks, three booster pumps and a distribution system. The Company's total production capacity of 173 Gallons-Per-Minute ("GPM"), is comprised of 98 GPM from its wells and 75 GPM from its interconnection to the City of Tucson source. Also, Lazy C has total storage capacity of 135,000-gallons. Based on these findings, Staff has determined that the Company has adequate capacity to serve its customers as well as reasonable growth.

Staff could not determine the Company's water loss level, due to discrepancies between its pumped/purchased water and water sold during the test year and 2009. The Company's data indicates that it sold more water than pumped/purchased for both years. Staff recommends that the Company be required to monitor and assure that its well pump meters are working effectively. Detailed discussion of the Company's non-account water is on pages 6 and 7 of Staff Engineering Report.

Lazy C is mandated to participate in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program ("MAP") because it serves less than 10,000 persons (approximately 3,300 service connections). During the test year, it incurred \$946 for water testing expense. Staff estimates that the Company's an average annual water testing expense is \$1,097, based on its participation in MAP.

In the last rate case, the Commission ordered Lazy C to adopt Staff recommended depreciation rates for each plant account. Staff found that the Company failed to comply with the Commission order requiring it to adopt depreciation rates depicted on Table B of Engineering Report in that proceeding. Staff recommends that the Company adopt its recommended depreciation rates depicted on page 10, Table B of Engineering Report, attached herewith.

COMPLIANCE

ADEQ regulates Lazy C's water system under Public Water System ("PWS") No. 10-065. ADEQ reports that during the last sanitary survey, significant deficiencies were noted relative to the management and operation of the Company. The only outstanding issue relates to the Company's lack of a Certified Operator. As a result of this operating deficiency, ADEQ cannot determine if the Company's water system is currently delivering water that meets drinking water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4; and/or if the PWS is not in compliance.

Lazy C is located within the Tucson AMA. The Arizona Department of Water Resources ("ADWR") issued a compliance status report, emailed on March 17, 2010, indicating that the Company is in compliance with the departmental requirement governing providers and/or community water systems.

A search of the Utilities Division Compliance Section's database indicates that the Company has no outstanding compliance issues.

RATE BASE

Based on the Company's filing, Lazy C's OCRB was \$316,159 at test year end. The Company did not provide a Reconstructed Cost New less Depreciation ("RCND") study, or a Fair Value Rate Base ("FVRB") in this proceeding. Accordingly, Staff assumes that its OCRB is equal FVRB.

As shown on Schedule AII-2, page 1 of 5, Staff recommends an OCRB of \$71,814, a decrease of \$244,345 to the Company's proposal. Staff's recommended decrease is attributable to its adjustments to Plant-in-Service, Accumulated Depreciation and Working Capital, as discussed below.

Plant in Service

As shown on Schedule AII-2, pages 1 of 5, Adjustment A, decreases plant-in-service by \$42,928. This adjustment derives primarily from the Company's failure to correctly reflect Commission approved plant balances per Decision No. 67161, in this proceeding. For example, the Company reported that balance of transmission reservoir and standpipe as \$13,569. Staff found that since the last rate case, the Company retired just \$557 from Commission approved transmission reservoir and standpipe balance of \$20,009, which results in test year balance of \$19,452. In addition, Staff reclassified \$11,150.50 reported as repairs and maintenance expense to pumping equipment, \$8,830 recorded as miscellaneous expense to transmission and distribution mains, and disallowed \$23,166 of unsupported plant addition to tools, shop and garage equipment. Detailed explanation of Staff's adjustment to each plant account is shown on Schedule AII-2, page 2, and discussed on Schedule AII-2, pages 3 and 4.

Accumulated Depreciation

As shown on Schedule AII-2, page 1 of 5, Staff recommends \$281,172 of accumulated depreciation, an increase of \$195,597 (Adjustment B) over the Company's reported accumulated depreciation of \$85,575. Staff's adjustment results in part, from the Company's failure to reflect \$168,313 of Commission approved accumulated depreciation in the last rate case, in its reported balance. Further, Staff found no evidence that the Company applied Commission approved depreciation rates, since last rate case. Adjustment B reflects the impact of Staff's recalculation of accumulated depreciation based on Staff adjusted plant-in-service and Commission approved rates.

Working Capital

Adjustment C, shown on Schedule AII-2, page 1 of 5, reflects the impact of Staff's adjustment to operating expenses on working capital. This adjustment results in a net decrease of \$5,820 to OCRB.

OPERATING INCOME STATEMENT

Operating Revenue

As shown on Schedule AII-3, page 1, Staff has adopted the Company's reported test year operating revenue of \$102,674 in this proceeding.

Operating Expenses

Staff recommends test year total operating expenses of \$96,858, a decrease of \$32,889 to the Company's reported costs of \$129,747. Staff's adjustments to operating expenses are shown on Schedule AII-3, page 1, and explained below.

Purchased Water – As shown on Schedule AII-3, page 2, Adjustment A reflects Staff's recommendation to normalize purchased water expense, based on 2007 and 2008 costs. The Company incurred \$6,491 for purchased water in 2007 and \$2,431 in 2008. Staff's recommendation to normalize these two years costs, results in an annual cost of \$4,461. Adjustment A increases purchased water expense by \$2,030 to reflect a normalized level.

Repairs and Maintenance Expense – Adjustment B shown on Schedule AII-3, pages 1 and 2, reduces repairs and maintenance expense by \$38,351, from Company reported test year cost of \$57,360, to Staff recommended cost of \$19,010. This adjustment reflects Staff's disallowance of \$20,000 expended on the purchase of a motor vehicle for an employee of an affiliated company; reclassification of \$1,200 of meter reading expense to outside services; disallowance of \$6,000 prepaid for a capital project; and capitalization of \$11,150 incurred for plant addition to pumping equipment.

Office Supplies Expense – Adjustment C decreases office supplies expense by \$2,317, to reflect Staff's reclassification of \$930 incurred for accounting services to outside services, and eliminates \$1,387 of charitable contribution from cost of service.

Outside Services – Adjustment D increases outside services by \$2,130, from \$16,208 to \$18,338. It reflects Staff's reclassification of \$930 of accounting cost from office supplies expenses, and \$1,200 of meter reading expense from repairs and maintenance expense.

Water Testing Expense – Adjustment E reflects Staff's recommended water testing expense, fully discussed of page 9 of Engineering Report.

Miscellaneous Expense – Adjustment F results from Staff's reclassification of \$8,830 to transmission and distribution mains.

Depreciation Expense – Adjustment G reflects Staff's recalculation of depreciation expense, based on Staff's recommended depreciation rates (Table B of Engineering Report). Staff's recalculation of depreciation expense is shown on Schedule AII-3, page 3 of 5.

Property Tax Expense – Adjustment H increases property tax expense by \$2,392, from \$3,857 to \$6,249, to reflect Staff's recalculation of property tax based on the ADOR methodology. Staff's calculation of property tax expense is depicted on Schedule AII-3, page 4 of 5.

Income Tax Expense – Adjustment I decreases test year income tax expense by \$4,689, from \$6,228 to \$1,539, to reflect Staff's recalculation of income taxes, shown on Schedule AII-3, page 5 of 5.

REVENUE REQUIREMENT

Lazy C seeks the Commission approval to increase its revenue requirement from \$102,674 to \$133,476, an increase of \$30,802 or 30 percent. The Company's proposal would result in an operating income of \$3,729 or a 1.18 percent rate of return on its OCRB of \$316,159.

Staff recommends revenue requirement of \$114,352, an increase of \$11,678 or 11 percent over test year level. Staff's recommended revenue requirement is \$19,124 less than the Company's proposal. Staff's recommended revenue requirement was derived based on a 13 percent operating margin, for the reasons discussed below. It yields an operating income of \$14,863 or a 20.70 percent rate of return on Staff adjusted OCRB of \$71,814.

Revenue requirement is a combination of cost of service and operating income. Typically, operating income is established by multiplying rate base by a rate of return, derived through a cost of capital analysis. Because most small utilities lack adequate capital structure and sizeable rate base, operating margin or cash flow requirement is commonly employed in the determination of their operating income in rate proceedings. This method yields adequate cash

flow that enables small utilities to effectively cover operating expenses and manage contingencies. The primary purpose of such recommendation is to keep small utilities viable, on a going forward. Because Lazy C is a Class D utility, with a small rate base, Staff has established its operating income based on a 13 percent operating margin.

RATE DESIGN

The Company's current rate structure is comprised of three tiers, with a first-tier break-over of 3,000; 10,000-gallons for the second-tier; and over 10,000-gallons for the third-tier. Its current monthly minimum charges do not include any gallonage. In this proceeding, the Company proposes to retain the same break-over points for its three tiered rate structure.

Staff recommends a three tiered rate structure, with a first tier break-over of 3,000-gallons; 9,000-gallons for the second-tier; and over 9,000-gallons for the third-tier. Staff recommended first tier break-over is lower than the Company's median usage of 8,333-gallons, and provides for non-discretionary consumption. Staff's recommended second-tier break-over is higher than the Company's median usage, but lower than its average usage 11,249-gallons. Staff's recommended rate structure will encourage a more efficient use of water within the Company's certificated territory.

The Company's proposed rates for a typical residential customer, on a 3/4-inch by 5/8-inch meter, with a median usage of 8,333-gallons, result in a monthly increase of \$14.02 or 30.00 percent. As shown on Schedule AII-5, Staff's recommended rates result in an increase of \$0.90 or 1.9 percent for a residential customer with the same level of consumption.

Staff normally derives monthly minimum charge for each meter size based on the application of a multiplier to the monthly minimum charge of a 3/4-inch by 5/8-inch meter. In applying this methodology, Staff observed that the sole customer on 1 1/2-inch meter would experience a spike in monthly minimum charge, from \$41.56 to \$95, an increase of \$53.44. Because of this significant cost impact, Staff recommends a monthly charge of \$75 for 1 1/2-inch meter. Staff's recommendation increases the monthly bill of a customer with a median usage of 7,250-gallons from \$65.19 to \$99.35, an increase of \$34.16 or 52.4 percent.

Staff recommends adoption of the Company's proposed Service Line and Meter Installation Charges as well as Service Charges, shown on Schedule AII-4.

ACCOUNTING ISSUES

Lazy C water was granted \$6,000 for the procurement of accounting services in the last rate case. As previously discussed, Staff is concerned about the Company's accounting records and its ability to implement the Commission order relative to adoption of appropriate depreciation rates. Staff recommends that the Company adopt its recommended depreciation rates depicted on Table B of Engineering Report.

STAFF RECOMMENDATIONS

Staff recommends approval of its recommended rates and charges depicted on Schedule AII-4.

Staff recommends that the Company be authorized to collect from its customers an appropriate share of any privilege, sales or use tax as provided for in AAC R14-2-409(D).

Staff recommends that the Company adopt the depreciation rates set forth on Table B of Engineering Report, no later than 30 days from the effective date of Commission order in this proceeding.

Staff recommends that the Company file with the Commission a schedule of its approved rates and charges no later than 30-days from the date of the decision in this proceeding.

Staff recommends that the Company monitor and assure that its well pump meters are working properly, and if it is determined that they are not, Company will repair and replace such well pump meters, within 30 days.

Staff recommends that the Company continue to closely monitor its water system and take actions to ensure that its water loss is less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall develop a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be file under this docket.

Staff recommends that any increase in permanent rates and charges in this matter shall become effective on the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from ADEQ indicating that there are no compliance deficiencies and the Company's water system is delivering water that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

Lazy C Water Service

Docket No. W-01536A-09-0410

Test Year Ended December 31, 2008

Schedule All-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$102,054	\$102,054	\$132,856	\$113,732
Unmetered Water Revenue	620	620	620	620
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$102,674	\$102,674	\$133,476	\$114,352
Operating Expenses:				
Operation and Maintenance	\$106,095	\$60,890	\$106,095	\$60,890
Depreciation	8,053	22,666	8,053	22,666
Taxes Other Than Income	5,514	5,514	5,514	5,514
Property Tax	3,857	6,249	3,857	6,485
Income Taxes	6,228	1,539	6,228	3,933
Total Operating Expense	\$129,747	\$96,858	\$129,747	\$99,489
Operating Income/(Loss)	(\$27,073)	\$5,816	\$3,729	\$14,863
Rate Base O.C.L.D.	\$316,159	\$71,814	\$316,159	\$71,814
Rate of Return - O.C.L.D.	N/M	8.10%	1.18%	20.70%
Operating Margin	N/M	5.66%	2.79%	13.00%
Percent Increase	N/M	N/M	30%	11%

N/M = Not meaningful

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$389,808	(\$42,928)	A	\$346,881
Less:				
Accum. Depreciation	85,575	195,597	B	281,172
Net Plant	\$304,233	(\$238,525)		\$65,708
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$0		\$0
Plus:				
1/24 Power	\$668	\$85	C	\$753
1/8 Operation & Maint.	11,258	(5,904)	C	5,354
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$11,926	(\$5,820)		\$6,106
Rate Base	\$316,159	(\$244,345)		\$71,814

Explanation of Adjustment:

- A - Refer to Schedule 2, Page 3.
- B - Refer to Schedule 2, Page 4.
- C - To provide cash working capital allowance based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	74 a	74
304 Structures & Improvements	0	0	0
307 Wells & Springs	23,100	(11,279) b	11,821
311 Pumping Equipment	39,254	31,403 c	70,657
320 Water Treatment Equipment	0	0	0
330.1 Distrib. Res. & Standpipes(Storage)	13,569	5,883 d	19,452
330.2 Distrib. Res. & Standpipes(Pressure)	0	0	0
331 Transmission & Distribution Mains	220,349	(37,594) e	182,755
333 Services	1,994	(1,918) f	76
334 Meters & Meter Installations	14,704	908 g	15,612
335 Hydrant	589	(589) h	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	11,847	(6,125) i	5,722
340 Office Furniture & Equipment	1,565	108 j	1,673
341 Transportation Equipment	38,000	(632) k	37,368
343 Tools Shop & Garage Equipment	24,837	(23,166) l	1,671
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$389,808	(\$42,928) A	\$346,881

Explanation of Adjustment:

A - Refer to Schedule 2, Pages 3 & 4.

PLANT ADJUSTMENT

Explanation of Adjustment:

- A - To reflect plant balances approved in the last rate case, reclassify plant in service, remove unsupported addition and unallowed cost through the end of the test year.

a - LAND & LAND RIGHTS - Per Company	\$ -	
Per Staff	\$ 74	74

To reflect original cost of Land and Land Rights approved in the last rate case cost.

b - WELLS AND SPRINGS - Per Company	\$ 23,100	
Per Staff	\$ 11,821	(11,279)

To correctly restate the original cost of Wells and Springs and reclassify \$8,112 of retired booster station to Pumping Equipment.

c - PUMPING EQUIPMENT - Per Company	\$ 39,254	
Per Staff	\$ 70,657	31,403

To reclassify \$11,150.50 reported as Repairs and Maintenance, eliminate \$8,112 of retired booster station and correctly restate the original cost of Pumping Equipment approved in the last rate case.

d - DISTRIBUTION RESERVOIR & STANDPIPE - Per Company	\$ 13,569	
Per Staff	\$ 19,452	5,883

To correctly restate original cost based on the balance approved in the last rate case.

e - TRANSMISSION & DIST. MAIN - Per Company	\$ 220,349	
Per Staff	\$ 182,755	(37,594)

This adjustment reflects the impact of Staff's reclassification of \$8,830 from Miscellaneous Expense, plant additions and retirements on the original cost approved in the last rate case.

f - SERVICES - Per Company	\$ 1,994	
Per Staff	\$ 76	(1,918)

To reflect Company reported retirements based on original cost approved in the last rate case.

g - METERS & METER INSTALLATIONS - Per Company	\$ 14,704	
Per Staff	\$ 15,612	908

To restate test year balance based on original cost approved in the last rate case.

h - HYDRANTS - Per Company	\$ 589	
Per Staff	\$ -	(589)

PLANT ADJUSTMENT (CONTINUED)

To restate test year balance based on original cost approved in the last rate case.

1 - OTHER PLANT & MISC. EQUIP. - Per Company	\$ 11,847	
Per Staff	\$ 5,722	(6,125)

To restate test year balance based on original cost approved in the last rate case.

j - OFFICE FURNITURE & EQUIPMENT - Per Company	\$ 1,565	
Per Staff	\$ 1,673	108

To restate test year balance based on original cost approved in the last rate case.

k - TRANSPORTATION EQUIPMENT - Per Company	\$ 38,000	
Per Staff	\$ 37,368	(632)

To restate test year balance based on original cost approved in the last rate case.

l - TOOLS, SHOP & GARAGE EQUIPMENT - Per Company	\$ 24,837	
Per Staff	\$ 1,671	(23,166)

To eliminate unsupported plant addition.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$85,575
Accumulated Depreciation - Per Staff	281,172
Total Adjustment	<u>\$195,597</u> B

Explanation of Adjustment:

- B - To reflect Staff's calculation of accumulated depreciation expense based on Staff's adjustments to plant and Commission approved depreciation rates.

Accumulated Depreciation - Per Decision No. 67161		\$	168,313
Depreciation Expense			
	2003	\$	20,442
	2004	\$	20,615
	2005	\$	20,348
	2006	\$	20,140
	2007	\$	20,414
	2008	\$	21,551
			<u>123,509</u>
Less: Plant Retirements			(10,650)
Total Accumulated Depreciation		\$	<u>281,172</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$102,054	\$0	\$102,054
460 Unmetered Water Revenue	620	0	620
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$102,674	\$0	\$102,674
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	2,431	2,030 A	4,461
615 Purchased Power	13,601	0	13,601
618 Chemicals	0	0	0
620 Repairs and Maintenance	57,360	(38,351) B	19,010
621 Office Supplies & Expense	5,716	(2,317) C	3,399
630 Outside Services	16,208	2,130 D	18,338
635 Water Testing	964	133 E	1,097
641 Rents	0	0	0
650 Transportation Expenses	0	0	0
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	9,815	(8,830) F	985
403 Depreciation Expense	8,053	14,613 G	22,666
408 Taxes Other Than Income	5,514	0	5,514
408.11 Property Tax	3,857	2,392 H	6,249
409 Income Taxes	6,228	(4,689) I	1,539
Total Operating Expenses	\$129,747	(\$32,889)	\$96,858
OPERATING INCOME/(LOSS)	(\$27,073)	\$32,889	\$5,816

STAFF ADJUSTMENTS

A - PURCHASED WATER - Per Company	2,431	
Per Staff	4,461	\$2,030

Adjustment A reflects Staff's recommendation to normalized 2007 and 2008 purchased water costs, derived as follows: $((\$6491 + \$2,431)/2)$.

B - REPAIRS AND MAINTENANCE - Per Company	\$57,360	
Per Staff	19,010	(\$38,351)

Adjustment B reflects the following:

Motor Vehicle - Acquired by Robert J Canfield Enterprise	\$ 20,000
Meter Reading Cost - Reclassified to outside services	1,200
Prepaid capital cost - Eliminated to avoid double counting	6,000
Pumping Equipment cost - Reclassified to Pumping Equipment	11,151
Total Adjustment	<u>\$ 38,351</u>

C - OFFICE SUPPLIES EXPENSE - Per Company	\$5,716	
Per Staff	3,399	(\$2,317)

Adjustment C reclassifies \$930 of accounting fees to outside services and eliminates \$1,387 of charitable contributions.

D - OUTSIDE SERVICES - Per Company	\$16,208	
Per Staff	18,338	\$2,130

Adjustment D reflects reclassification of \$930 of accounting fees from office supplies expense, and \$1,200 of meter reading cost from repairs and maintenance.

E - WATER TESTING - Per Company	\$964	
Per Staff	1,097	\$133

This adjustment recognizes Staff Engineering's recommended water testing expense.

F - MISCELLANEOUS EXPENSE - Per Company	\$9,815	
Per Staff	985	(\$8,830)

Adjustment F reclassifies \$8,830 of capital cost to transmission and distribution mains.

G - Adjustment G reflects Staff's recalculation of depreciation expense, as depicted on Schedule All-3, Page 3 of 5.

H - Adjustment H reflects Staff's recalculation of property tax based on ADOR Methodology, shown on Schedule All-3, Page 4 of 5.

I - Adjustment I reflects Staff's recalculation of income taxes, shown on Schedule All-3, Page 5 of 5.

STAFF ADJUSTMENTS (CONTINUED)

G - DEPRECIATION - Per Company
Per Staff

\$8,053
22,666 \$14,613

To reflect application of Staff's recommended depreciation rates to
Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment G - Test Year Depreciation Expense

Depreciation Expense

Line No.	Account No.	Description	Plant in Service Staff	Proposed Rate	Depreciation Expense
1	301	Organization	-	0.00%	-
2	302	Franchises	-	0.00%	-
3	303	Land & Land Rights	74	0.00%	-
4	304	Structures & Improvements	-	3.33%	-
5	307	Wells & Springs	11,821	3.33%	394
6	311	Pumping Equipment	70,657	12.50%	8,832
7	320	Water Treatment Equipment	-	0.00%	-
8	320.1	Water Treatment Plant	-	3.33%	-
9	320.2	Solution Chemical Feeders	-	20.00%	-
10	330.1	Distrib. Res. & Standpipes(Storage)	19,452	2.22%	432
11	330.2	Distrib. Res. & Standpipes(Pressure)	-	5.00%	-
12	331	Transmission & Distribution Mains	182,755	2.00%	3,655
13	333	Services	76	3.33%	3
14	334	Meters & Meter Installations	15,612	8.33%	1,300
15	335	Hydrant	-	2.00%	-
16	336	Backflow Prevention Devices	-	6.67%	-
17	339	Other Plant and Misc. Equipment	5,722	6.67%	382
18	340	Office Furniture & Equipment	1,673	6.67%	112
19	341	Transportation Equipment	37,368	20.00%	7,474
20	343	Tools Shop & Garage Equipment	1,671	5.00%	84
21	344	Laboratory Equipment	-	10.00%	-
22	345	Power Operated Equipment	-	5.00%	-
23	346	Communication Equipment	-	10.00%	-
24	347	Miscellaneous Equipment	-	10.00%	-
25	348	Other Tangible Plant	-	0.00%	-
26	105	C.W.I.P.	-	0.00%	-
27					
28		Total Plant	<u>\$346,881</u>		<u>\$ 22,666</u>
29		Less: Non Depreciable Plant	<u>74</u>		
30		Total Depreciable Plant	<u>346,807</u>		
31					
32		Less: Amort. of Contributions - Adjusted Balance End of TY	\$ -	6.54%	\$ -
33		Total Depreciation Expense			\$ 22,666
34		Test Year Depreciation Expense			<u>8,053</u>
35		Increase (decrease) in Depreciation Expense			<u>14,613</u>
36					
37		Adjustment to Revenues and/or Expenses			<u>\$ 14,613</u>

OPERATING INCOME ADJUSTMENT #1 - TO REFLECT STAFF'S CALCULATION OF PROPERTY TAX USING THE ARIZONA DEPARTMENT OF REVENUE METHOD. UTILIZES TWO YEARS OF ADJUSTED TEST YEAR REVENUES AND ONE YEAR OF STAFF'S RECOMMENDED REVENUES.

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 102,674	\$ 102,674
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 205,348	\$ 205,348
4	Staff Recommended Revenue	102,674	\$ 114,352
5	Subtotal (Line 4 + Line 5)	\$ 308,022	\$ 319,700
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 102,674	\$ 106,567
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 205,348	\$ 213,133
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 205,348	\$ 213,133
13	Assessment Ratio	21.00%	21.00%
14	Assessment Value (Line 12 * Line 13)	\$ 43,123	\$ 44,758
15	Composite Property Tax Rate - Obtained from ADOR	14.4900%	14.4900%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 6,249	
17	Company Proposed Property Tax	3,857	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 2,392	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 6,485
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 6,249
21	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement		\$ 237
22	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 237
23	Increase (Decrease) in Revenue Requirement		\$ 11,678
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		2.02860%

REFERENCES:

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue

Line 17: Company's Application

Line 21: Line 19 - Line 20

Line 23: Line E17 - Line C17

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal, State & Property Tax Rate (Line 12)	0.214621			
5	Subtotal (L3 - L4)	0.785379			
6	Revenue Conversion Factor (L1 / L5)	1.273270			
<u>Calculation of Effective Tax Rate:</u>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 34)	15.0000%			
11	Effective Federal Income Tax Rate (L9 x L10)	13.9548%			
12	Combined Federal and State Income Tax Rate (L8 + L11)		20.9228%		
<u>Calculation of Effective Property Tax Rate:</u>					
13	Unity	100.0000%			
14	Combined Federal & State Income Tax Rate	20.9228%			
15	One Minus Combined Income Tax Rate	79.07720%			
16	Property Tax Factor	0.68195%	0.005392709		
17	Effective Property Tax Rate				
	Combined Federal, State Income & Property Tax Rate			21.4621%	
13	Required Operating Income (Schedule All-1, Line 5)	\$ 17,600			
14	Adjusted Test Year Operating Income (Loss) (Schedule All-8, Line 16)	\$ (3,591)			
15	Required Increase in Operating Income (L13 - L14)	\$ 21,191	\$ 21,191		
16	Income Taxes on Recommended Revenue (Col. (D), L33)	\$ 3,933			
17	Income Taxes on Test Year Revenue (Col. (B), L33)	\$ 1,539			
18	Required Increase in Revenue to Provide for Income Taxes (L16 - L17)		\$ 2,394		
				\$ 23,584.84	
	Property Tax with Recommended Revenue (All-16, Col B, L16)	\$ 6,249			
	Property Tax on Test Year Revenue (All-16, Col A, L16)	3,048	\$ 3,201	\$ 3,200.77	
	Increase in Property Tax Due to Increase in Revenue (L35-L36)			\$ 26,786	
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Proposed	
20	Revenue (Schedule All-7, Columns C and E)	\$ 102,674		\$114,352	
21	Less: Operating Expenses Excluding Income Taxes	\$ 95,319		\$95,556	
22	Less: Synchronized Interest (L37)	\$ -		-	
23	Arizona Taxable Income (L20 - L21 - L22)	\$ 7,355		18,796	
24	Arizona State Income Tax Rate	6.968%		6.968%	
25	Arizona Income Tax (L23 x L24)		\$ 512		\$ 1,310
26	Federal Taxable Income (L23 - L25)	\$ 6,842		\$ 17,486	
27	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,026		\$ 2,623	
28	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -		\$ -	
29	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
30	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	
31	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
32	Total Federal Income Tax		\$ 1,026		2,623
33	Combined Federal and State Income Tax (L25 + L32)		\$ 1,539		3,933
34	Applicable Federal Income Tax Rate [Col. (D), L32 - Col. (B), L32] / [Col. (C), L26 - Col. (A), L26]				15.0000%
<u>Calculation of Interest Synchronization:</u>					
35	Rate Base (Schedule All-3, Col. (C), Line 13)	\$ 141,845			
36	Weighted Average Cost of Debt	0.00%			
37	Synchronized Interest (L35 x L37)	\$ -			

RATE DESIGN

Monthly Usage Charge	Present	Company	Staff
	Rates	Proposed	Recommended
5/8" x 3/4" Meter	\$19.00	\$24.70	\$19.00
3/4" Meter	28.50	37.05	28.28
1" Meter	35.63	46.32	47.50
1½" Meter	41.56	54.03	75.00
2" Meter	128.00	166.40	150.80
3" Meter	285.00	370.50	301.60
4" Meter	475.00	617.50	471.25
6" Meter	950.00	1,235.00	942.50
<u>Commodity Rates</u>			
Tier One Rate - (0 - 3,000 gallons)	2.45	3.18	2.45
Tier Two Rate - (3,001 - 9,000 gallons)			4.00
Tier Two Rate - (3,001 - 10,000 gallons)	3.83	4.98	
Tier Three Rate - (Over 9,000 gallons)			5.50
Tier Three Rate - (Over 10,000 gallons)	5.20	6.76	
Standpipe (Per 1000 Gallons)	3.00	5.65	5.50

Service Line and Meter Installation Charges	Present Rates	Company Proposed	-Staff Recommended-		
			Service Line Charge	Meter Installation	Total
5/8" x 3/4" Meter	\$406.00	\$528.00	\$420.00	\$108.00	\$528.00
3/4" Meter	\$455.00	\$592.00	395.00	197.00	592.00
1" Meter	\$520.00	\$676.00	430.00	246.00	676.00
1½" Meter	\$740.00	\$962.00	505.00	457.00	962.00
2" Meter	\$1,235.00	\$1,606.00	716.00	890.00	1,606.00
3" Meter	\$1,705.00	\$2,217.00	855.00	1,362.00	2,217.00
4" Meter	\$2,700.00	\$3,510.00	1,255.00	2,255.00	3,510.00
6" Meter	\$5,035.00	\$6,546.00	1,990.00	4,556.00	6,546.00
Over 6-inch	Actual Cost	Actual Cost	Actual Cost	Actual Cost	Actual Cost

Service Charges	Rates	Company	Staff
		Proposed	Recommended
Establishment	\$15.00	\$20.00	\$20.00
Establishment (After Hours)	\$25.00	\$33.00	\$33.00
Reconnection (Delinquent)	\$15.00	\$20.00	\$20.00
Meter Test (If Correct)	\$25.00	\$33.00	\$33.00
Deposit	*	*	*
Deposit Interest	**	**	**
Re-Establishment (Within 12 Months)	***	***	***
NSF Check	\$15.00	\$20.00	\$20.00
Deferred Payment	N/A	N/A	N/A
Meter Re-Read (If Correct)	\$10.00	\$15.00	\$15.00
Late Payment Charge-Per Month	N/A	N/A	N/A
Charge For Moving Meter	Minimum Cost	Minimum Cost	Minimum Cost

RATE DESIGN

Monthly Service Charge for Fire Sprinkler	Present Rates	Company Proposed	Staff Recommended
4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

* Per Commission Rule ACC R14-2-403(B)(7)

** Per Commission Rule ACC R14-2-403(B)(3)

*** Months off system times the monthly minimum AAC R14-2-403(D)

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection,
but no less than \$10.00 per month. The Service Charge for Fire Sprinklers
is only applicable for service lines separate and distinct from the primary
water service line.

TYPICAL BILL ANALYSIS
 General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 106

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	11,249	\$59.65	\$77.54	\$17.89	30.0%
Median Usage	8,333	\$46.78	\$60.80	\$14.02	30.0%

<u>Staff Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	11,249	\$59.65	\$62.72	\$3.07	5.1%
Median Usage	8,333	\$46.78	\$47.68	\$0.90	1.9%

Present & Proposed Rates (Without Taxes)
 General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$19.00	\$24.70	30.0%	\$19.00	0.0%
1,000	21.45	27.88	30.0%	21.45	0.0%
2,000	23.90	31.06	30.0%	23.90	0.0%
3,000	26.35	34.24	29.9%	26.35	0.0%
4,000	30.18	39.22	30.0%	30.35	0.6%
5,000	34.01	44.20	30.0%	34.35	1.0%
6,000	37.84	49.18	30.0%	38.35	1.3%
7,000	41.67	54.16	30.0%	42.35	1.6%
8,000	45.50	59.14	30.0%	46.35	1.9%
9,000	49.33	64.12	30.0%	50.35	2.1%
10,000	53.16	69.10	30.0%	55.85	5.1%
15,000	79.16	102.90	30.0%	83.35	5.3%
20,000	105.16	136.70	30.0%	110.85	5.4%
25,000	131.16	170.50	30.0%	138.35	5.5%
50,000	261.16	339.50	30.0%	275.85	5.6%
75,000	391.16	508.50	30.0%	413.35	5.7%
100,000	521.16	677.50	30.0%	550.85	5.7%
125,000	651.16	846.50	30.0%	688.35	5.7%
150,000	781.16	1,015.50	30.0%	825.85	5.7%
175,000	911.16	1,184.50	30.0%	963.35	5.7%
200,000	1,041.16	1,353.50	30.0%	1,100.85	5.7%

TYPICAL BILL ANALYSIS
 General Service 1 1/2 - Inch Meter

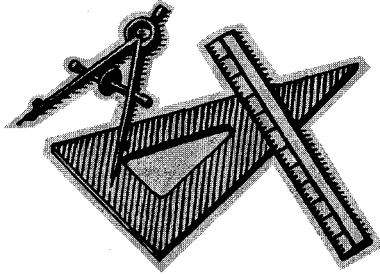
Average Number of Customers: 1

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,333	\$65.51	\$85.15	\$19.64	30.0%
Median Usage	7,250	\$65.19	\$84.74	\$19.55	30.0%

<u>Staff Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	7,333	\$65.51	\$99.68	\$34.17	52.2%
Median Usage	7,250	\$65.19	\$99.35	\$34.16	52.4%

Present & Proposed Rates (Without Taxes)
 General Service 1 1/2 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$41.56	\$54.03	30.0%	\$75.00	80.5%
1,000	44.01	57.21	30.0%	77.45	76.0%
2,000	46.46	60.39	30.0%	79.90	72.0%
3,000	48.91	63.57	30.0%	82.35	68.4%
4,000	52.74	68.55	30.0%	86.35	63.7%
5,000	56.57	73.53	30.0%	90.35	59.7%
6,000	60.40	78.51	30.0%	94.35	56.2%
7,000	64.23	83.49	30.0%	98.35	53.1%
8,000	68.06	88.47	30.0%	102.35	50.4%
9,000	71.89	93.45	30.0%	106.35	47.9%
10,000	75.72	98.43	30.0%	111.85	47.7%
15,000	101.72	132.23	30.0%	139.35	37.0%
20,000	127.72	166.03	30.0%	166.85	30.6%
25,000	153.72	199.83	30.0%	194.35	26.4%
50,000	283.72	368.83	30.0%	331.85	17.0%
75,000	413.72	537.83	30.0%	469.35	13.4%
100,000	543.72	706.83	30.0%	606.85	11.6%
125,000	673.72	875.83	30.0%	744.35	10.5%
150,000	803.72	1,044.83	30.0%	881.85	9.7%
175,000	933.72	1,213.83	30.0%	1,019.35	9.2%
200,000	1,063.72	1,382.83	30.0%	1,156.85	8.8%



**ENGINEERING REPORT
FOR LAZY C WATER SERVICE
DOCKET NO. W-01536A-09-0410 (Rates)
BY: Katrin Stukov
Utilities Engineer**

March 31, 2010

KS

SUMMARY

Conclusions

1. Based upon the operator certification deficiency, the Arizona Department of Environmental Quality ("ADEQ") cannot determine if the Company's water system is currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.
2. Staff concludes that the Company's system has adequate source and storage capacities to serve the present customer base and anticipated growth.
3. The Company's water system is located in the Tucson Active Management Area ("AMA").
4. The Arizona Department of Water Resources ("ADWR") has reported that the Company's water system is in compliance with its requirements governing water providers and/or community water systems.
5. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.
6. The Company has an approved curtailment plan tariff.
7. The Company has an approved backflow prevention tariff.

Recommendations

1. Staff recommends that any increase in permanent rates and charges in this matter shall become effective on the first day of the month after the Company files with Docket Control, as a compliance item in this docket, documentation from ADEQ indicating that there are no compliance deficiencies and the Company's water system is delivering water

that meets the water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4.

2. Staff recommends that the Company be ordered to monitor and assure that its well pump meters are working properly, and if it determined that they are not, the Company should repair or replace its well meters as necessary and within 30 days.
3. Staff recommends that the Company continue to monitor the water system closely and take action to ensure that water loss is less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.
4. Staff recommends its annual water testing expense estimate of \$1,097 be used for proceeding.
5. Staff recommends the depreciation rates ordered in Decision No. 67161, as delineated in Table B.
6. Staff recommends that the service line and meter installation charges labeled under "Staff's Recommendation" in Table C be adopted.

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I. INTRODUCTION AND LOCATION OF COMPANY

On August 28, 2009, Lazy C Water Service ("Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission").

The Company serves the Lazy C Ranch Estates which is located approximately six miles northwest of downtown Tucson. The water system was visited on February 17, 2010, by Katrin Stukov, Staff Utilities Engineer, accompanied by Company representatives Robert J. Canfield, Owner/Operator, and Robert Canfield II.

Figure 1 shows the location of the Company within Pima County and Figure 2 shows the certificated area covering approximately 948 acres or 1-1/2 square-miles.

Figure 1. Pima County Map

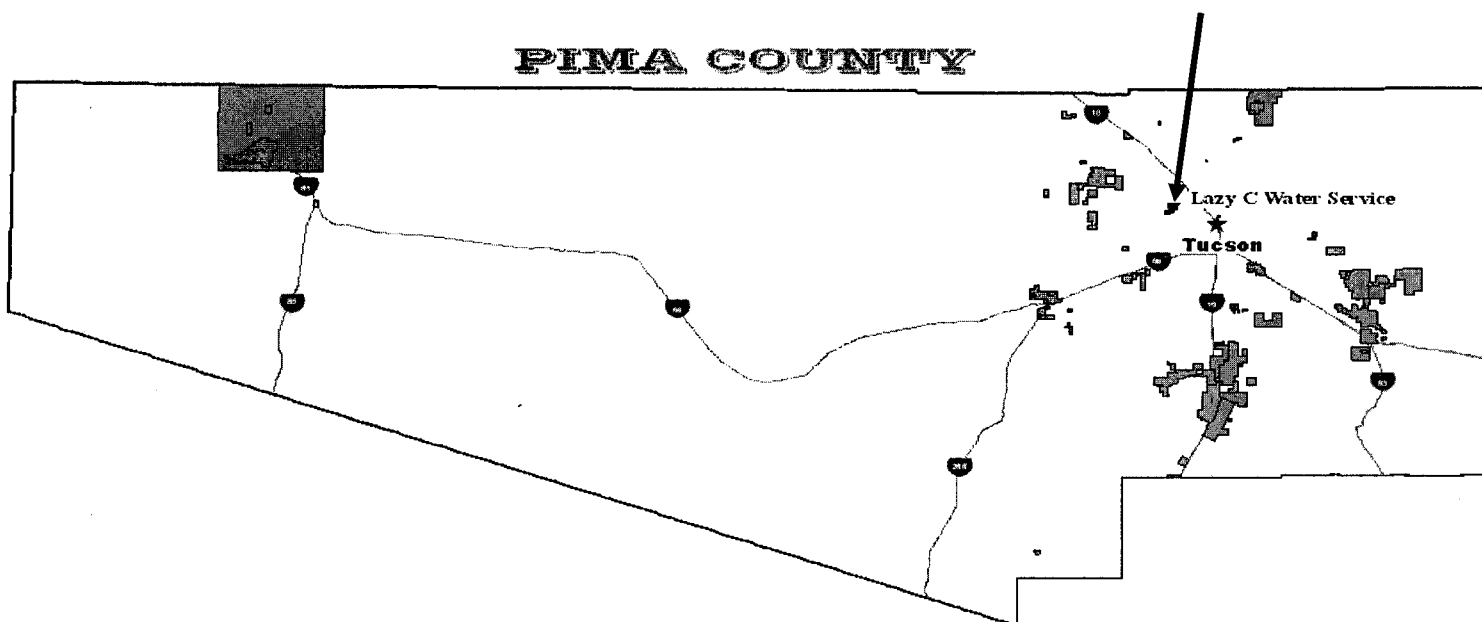
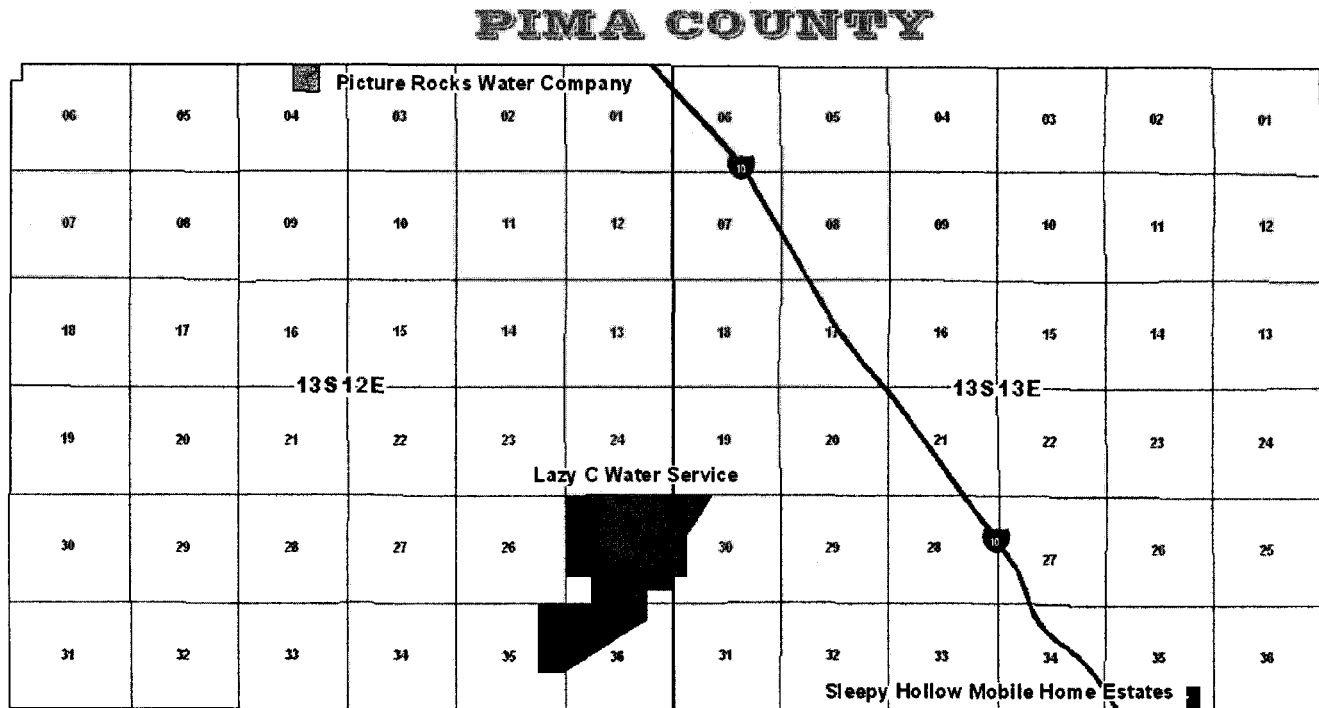


Figure 2. Certificated Area



II. DESCRIPTION OF THE WATER SYSTEM

The water system's plant is located on four separate sites and consists of two wells, three storage tanks, four pressure tanks, three booster pumps and a distribution system serving approximately 130 service connections. The Company's system also has an interconnection with the City of Tucson water system.

A system schematic is shown as Figures 3 and a detailed plant facility listing is as follows:

Well Data

Well	ADWR ID #	Pump (Hp)	Pump (GPM)	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
Well #1 *	55-801499	15	50	10"	563'	1-1/2"	1993
Well #2	55-801500	15	48	8"	650'	1-1/2"	1996

Notes: * Well #1 has a 100 gallon pressure/surge tank that operates as a control switch.

Additional Water Source

Name	Capacity
City of Tucson	75 GPM
Note: Flow is through a 1-1/2-inch line consisting of a meter, backflow prevention assembly and a pressure relief valve.	

Storage Tanks and Booster Systems

Location	Storage Tanks (gallon)	Booster Pumps (hp)	Pressure Tanks (gallon)
Well #2	None	None	1,000
Main Booster Station	100,000	25 (Turbine)	3,000
Main Booster Station	25,000	20	3,000
Booster Station #3	10,000	10	2,000

Water Mains

Diameter (inch)	Material	Length (feet)
2	PVC & GIP	8,909
3	ACP	1,600
4	ACP & PVC	21,765
6	ACP & PVC	18,184
	Total:	50,458

Customer Meters

Size	Quantity
5/8 x 3/4-inch	106
1- inch	25
1-1/2-inch	1
Total:	131

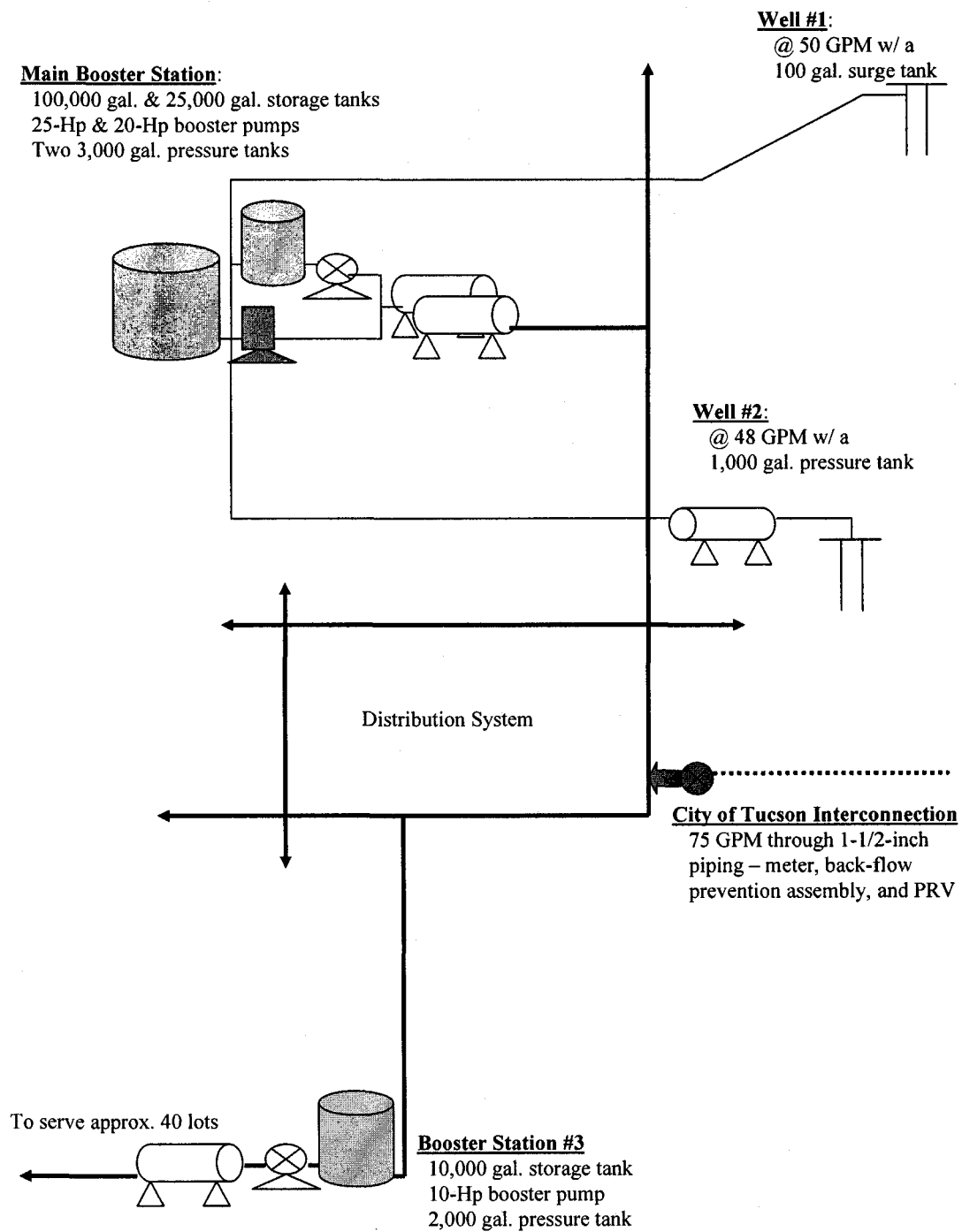
Fire Hydrants

Size	Quantity
Standard	1

Structures

Fencing: 60' x 70' brick wall at Well Site #1
Fencing: 30' x 30' chain link fence at Well Site #2
Fencing: 110' x 60' chain link fence at Main Booster Station
Fencing: 60' x 60' x 60' brick wall at Booster Station #3

Figure 3. Water System Schematic

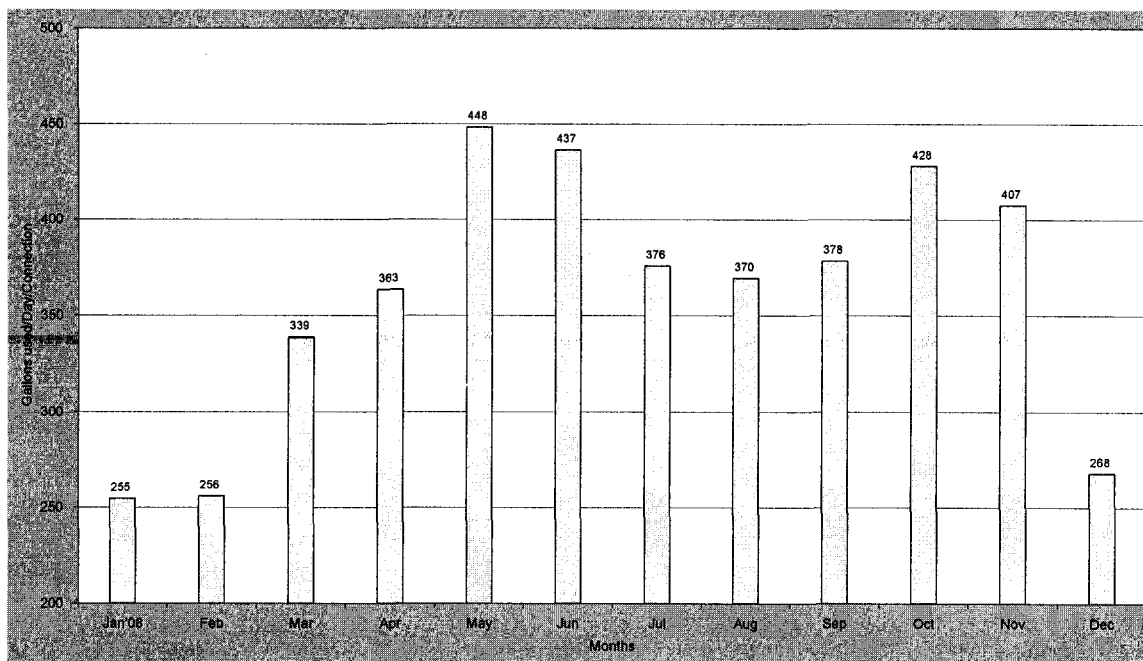


III. WATER USE

Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2008, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 448 gallons per day (“GPD”) per connection in May, and the low water use was 255 GPD per connection in January. The average annual use was 360 GPD per connection.

Figure 4. Water Use



Non-Account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 15,409,442 gallons pumped/purchased and 17,426,262 gallons sold for the 2008 test year. For 2009 the Company reported 16,147,248 gallons pumped/purchased and 17,509,490 gallons sold. This data suggests that in 2008 and in 2009 the Company sold more gallons than it supposedly pumped.

The Company asserted the discrepancy may be due to malfunctioning well meters. According to the Company, both well meters were replaced in February 2010.

Due to the discrepancy in the reported gallons pumped in 2008 and 2009, Staff used Water Use Data from the Company's 2007 Annual Report. The Company reported 19,405,846 gallons pumped/purchased and 18,864,180 gallons sold in 2007, resulting in a water loss of 2.8 percent. This percentage is within acceptable limit of 10 percent.

Staff recommends that the Company be ordered to monitor and assure that its well pump meters are working properly, and if it determined that they are not, the Company should repair or replace its well meters as necessary and within 30 days.

Staff recommends that the Company continue to monitor the water system closely and take action to ensure that water loss is less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.

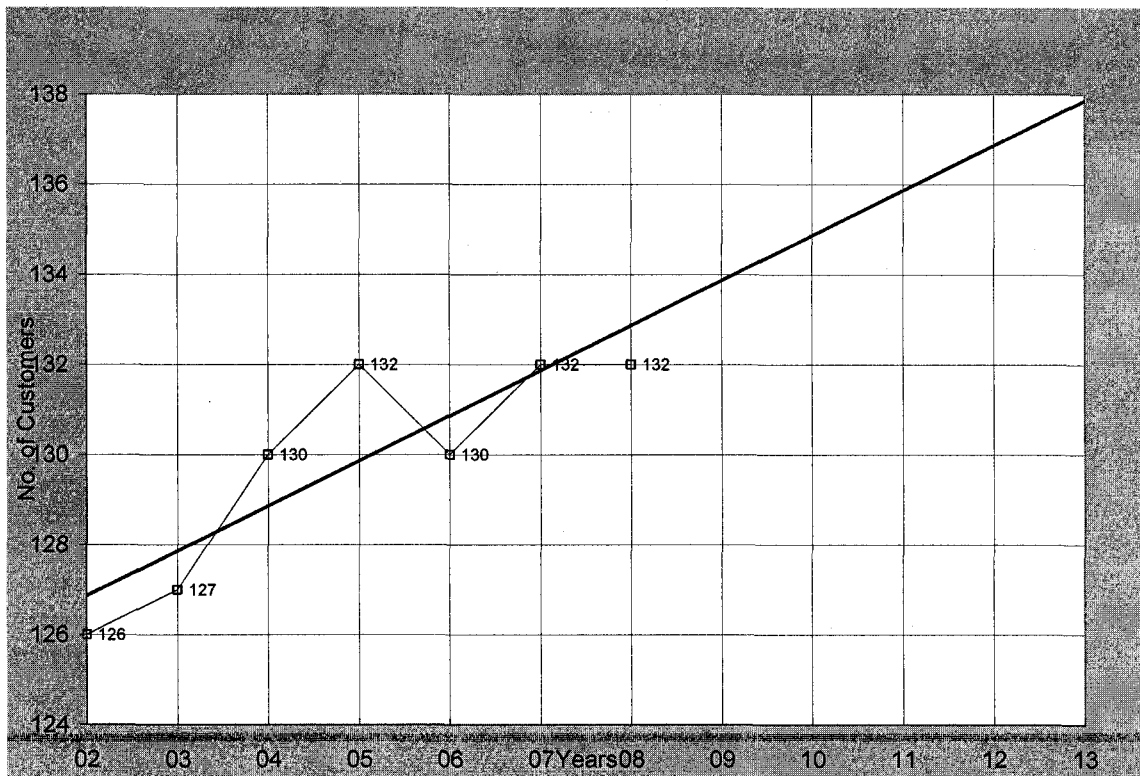
System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the system's well total production capacity of 98 GPM, the City of Tucson source at 75 GPM, and total storage capacity of 135,000 gallons is adequate to serve the present customer base and reasonable growth.

IV. GROWTH

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have approximately 138 customers by 2013. Figure 5 depicts actual growth from 2002 to 2008 and projects an estimated growth for the next five years using linear regression analysis.

Figure5. Growth Projection



V. ADEQ COMPLIANCE

Compliance

The ADEQ regulates the Company's water system under ADEQ Public Water System ("PWS") No. 10-065. ADEQ has reported that during the last sanitary survey, significant deficiencies were noted in the inspection related to management and operation and at this time, the only outstanding issue is the need for a Certified Operator. The Company is currently addressing the operator certification deficiency. Based upon the operator certification deficiency, ADEQ cannot determine if the Company's water system is currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.¹

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

¹ Per ADEQ Compliance Status Report dated March 5, 2005.

The Company reported its water testing expense at \$964 with participation in the MAP for the test year. (ADEQ - MAP invoice for the 2008 Calendar Year rounded was \$584). Table A shows Staff's estimate of average annual monitoring expense at \$1,097 with participation in the MAP. Staff recommends its annual water testing expense estimate of \$1,097 be used for this proceeding.

Table A. Water Testing Cost

Monitoring	Cost per sample	No. of sample per year	Average Annual Cost
Total coliform – monthly	\$25	12	\$300
Maximum Residual Disinfection Level (“MRDL”)	\$25	4	\$100
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs-annually	MAP	MAP	\$584
Nitrate-annually	\$15	2	\$30
Lead & Copper – per 3 years	\$25	10/3	\$83
Total			\$1,097

VI. ADWR COMPLIANCE

The water system is located in the Tucson Active Management Area (“AMA”). ADWR has reported that this system is in compliance with its requirements governing water providers and/or community water systems.²

VII. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.³

VIII. DEPRECIATION RATES

In Decision No. 67161, dated August 10, 2004, new depreciation rates for the Company were adopted. The depreciation rates submitted by the Company with this application are different from rates specified in Decision No. 67161. The Company did not provide specific reasons for this deviation. Staff recommends the depreciation rates ordered in Decision No. 67161 and, as delineated in Table B.

² Per ADWR Compliance status report e-mailed on March 17, 2010.

³ Per ACC Compliance status check dated March 9, 2010.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

- These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

IX. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges approximate the lower end of Staff's customary range for these charges. Staff recommends the acceptance of the Company's proposed installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff, using the Company's proposed total charges, and are recommended as shown in Table C.

Staff recommends that the service line and meter installation charges labeled under "Staff's Recommendation" in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size (inch)	Company's Current Tariff			Company Proposed Tariff	Staff's Recommendations		
	Service Line Installation Charges	Meter Installation Charges	Total Charges		Service Line Installation Charges	Meter Installation Charges	Total Charges
5/8 x 3/4	\$291	\$115	\$406	\$528	\$420	\$108	\$528
3/4	\$290	\$165	\$455	\$592	\$395	\$197	\$592
1	\$315	\$205	\$520	\$676	\$430	\$246	\$676
1-1/2	\$330	\$410	\$740	\$962	\$505	\$457	\$962
2	\$355	\$880	\$1,235	\$1,606	\$716	\$890	\$1,606
3	\$395	\$1,310	\$1,705	\$2,217	\$855	\$1,362	\$2,217
4	\$610	\$2,090	\$2,700	\$3,510	\$1,255	\$2,255	\$3,510
6	\$890	\$4,145	\$5,035	\$6,546	\$1,990	\$4,556	\$6,546

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.